Portfolio Objective Alignment: Putting Your Money Where Your Mouth Is

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Investments Don't Seem To Mirror Strategies or Expectations

If you want to know what people value, look at where they spend... 

In this economy, our spending must match our values — We cannot afford to waste or miss the mark
Key Issues

1. What is portfolio management, really?

2. How can investment categories be applied to ensure that objectives are commensurate with reality — even if objectives change?

3. What should be done to ensure that there is investment alignment in the real world?
What Is Portfolio Management, Really?

- The basic concept of portfolios
- IT portfolio management nuances
- A functional approach to IT portfolio management

Most aren't really doing portfolio management — they are just prioritizing lists.
Portfolio Management Is a Best Practice for Allocating and Adjusting Resources

Personal Investment Portfolio

Objectives
- Retirement
- College for kids
- Vacation

Investments
- Home Equity
- Life Insurance
- Cash
- Retirement
- Stocks and Bonds

IT Portfolio

Plan

Business Activities
- Buy and Receive
- Sell and Ship
- Transport and Logistics
- Make/New Product Introduction

Assets
- Applications
- Data and Information
- Operations
- Infrastructure
- Human Capital

Projects
- ERP
- SCM
- CRM
- CPFR
- Collaboration
- Security

Risk

Return
IT Portfolio Management Is the Same But Different

Enterprise Strategic Intent
- Critical Success Factors
  - Enterprise Business Objectives
    - Key Performance Indicators
      - Business Unit Objectives/Requirements
        - Balanced Scorecard
          - IT Plan (IT Policies, Principles, Road Map, etc.)

Stage 1
- Opportunity Generation, Capture and Analysis
Stage 2
- Ideation
Stage 3
- Feasibility and Assessment
Stage 4
- Idea Selection
Gate 1
- Stage 1 Scoping/Preliminary Analysis
Gate 2
- Stage 2 Build Business Case
Gate 3
- Stage 3 Development
Gate 4
- Stage 4 Test and Validation
Gate 5
- Stage 5 Concept Maturation
Gate 6
- Stage 6 Concept Maturation

IT Discovery Phase
- Gate 1
  - Approved and Mature Concepts
  - Stage 1 Opportunity Generation, Capture and Analysis

IT Asset Phase
- Gate 2
  - New Modified Assets
  - Stage 1 Successful Launch
  - Asset Transformation Discovery Proposals
  - Asset Transformation Project Proposals
  - Gate 3
    - Stage 3 Life Cycle Management

IT Project Phase
- Gate 4
  - Approved and Mature Concepts
  - Stage 1 Scoping/Preliminary Analysis
  - Gate 5
    - New Modified Assets

Enterprise Architecture
- Enterprise Strategic Intent
- Critical Success Factors
  - Enterprise Business Objectives
    - Key Performance Indicators
      - Business Unit Objectives/Requirements
        - Balanced Scorecard
          - IT Plan (IT Policies, Principles, Road Map, etc.)

Business/Competitive Intelligence
- Reflects Regular Status Reviews
- Gate 1
  - Approved and Mature Concepts
  - Stage 1 Scoping/Preliminary Analysis

There Is a Process for Doing Portfolio Management

Develop PfM Game Plan

Plan Portfolio

Create Portfolio

Assess Portfolio

Balance Portfolio

Communicate Portfolio

Portfolio Governance and Organization

Assess PfM Program Execution

Portfolio
Using Investment Categories to Ensure Objectives Are Commensurate With Reality

• Investment categories explained
• Options for categories
• Disconnect between what we say and what we do
Investment Categories Are Like Budget Categories

**Budgets**

- A list of all planned expenses and revenues
- Illustrates trade-offs between two or more items
- Requires estimating value of competing items
- Serves as a financial plan to allocate funds in support of multiple objectives

*Like budgets, investment categories help you decide how to spend before you spend.*
Investment Categories Align Big Dollar Objectives With Actuals

- Determine business objectives
- Identify risk/reward levels for the organization
- Determine management approaches
- Identify the types of metrics that are relevant

"The perfect is the enemy of the good."
— Voltaire
The Real-World Impact of IT Portfolio Management: A Case Study

The Results of IT Portfolio Management at a Large Telecommunications Firm After 6 Months

Target Total Cash Outlay Reduced by 26% Year-to-Year (1).
What Should Be Done to Ensure That There Is Investment Alignment in the Real World?

- Secure sponsorship and commitment
- Plan portfolio investment strategy
- Build actual portfolio
- Compare actual to desired
- Balance
Secure Executive Sponsorship and commitment

- Define:
  - Objectives
  - Success criteria
  - Risks & assumptions
- Document in a charter
  - Signed and posted in public
    - Three conditions to create lasting commitments*:
      - Un-coerced — People have to feel as if they made the decision themselves.
      - Active — Action, for example, writing the change down, anchors the change.
- Public — When a commitment is made public, it is statistically more likely that they will stick with their commitments.

Plan Portfolio Investment Strategy

- Plan investment strategy
- Plan portfolio structure
- Plan individual subportfolios

Plan to stakeholder decision-making needs and objectives
Build Actual Portfolio

- Populate portfolio
- Identify expected risks and returns
- Define metrics
- Build portfolio views

*Build to stakeholder decision-making needs and objectives*
Compare Actual to Desired

- Monitor for triggers
  - Gates
  - Thresholds
  - Temporal
- Measure portfolio
- Compare metrics against targets

Here, we essentially check budget to actual for the entire plan
Balance the Portfolio(s)

• Identify options
• Determine tradeoffs
• Select changes
• Implement changes

Proposed Change
Projects

Assets

ESA Solution
Portfolios

Balancing becomes easier when you have a predefined goal

Gartner
Recommendations

✓ Identify goals and objectives of the organization
✓ Identify risk tolerance of organization
✓ Create candidate investment categories
✓ Budget candidate investment categories
✓ Compare actual to budget
✓ Adjust
Recommended Gartner Research

- Six Steps to Keeping Basic Portfolio Management Basic
  Robert Handler (G00239516)

- Don’t Wait: Three Simple Project Portfolio Management Scenarios and Solutions
  Michael Hanford & Robert Handler (G00232097)

- Project Portfolios and the Case for Contingency: In Fact, a Lot of Contingency
  Robert Handler (G00239516)

- Why People Make Irrational Decisions, and How PPM Leaders Can Deal With It
  Robert Handler (G00205810)

For more information, stop by Experience Gartner Research Zone.